

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2004-373

July 7, 2004

BANGOR HYDRO-ELECTRIC COMPANY
Application for Approval of Issuance of
Securities (§902) (\$60 Million Renewal
Of Revolving Credit Agreement)

SUPPLEMENTAL ORDER
APPROVING ISSUANCE
OF SECURITIES

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

On June 22, 2004, the Commission issued an order in this docket approving Bangor Hydro-Electric Company's (BHE or the Company) application for authority to renew its expiring unsecured Revolving Credit Agreement for three years, with the option to extend the Agreement for up to two additional years. On June 24, BHE notified the Commission that the original agreement included an amendment allowing for an additional \$10 million in unsecured available borrowing capacity. Therefore, BHE was actually seeking approval to renew an existing *\$70 million* unsecured revolving credit agreement rather than one for \$60 million as stated in its original filing and as approved in our previous Order in this docket. This Supplemental Order approves BHE's request for an additional \$10 million in unsecured borrowing capacity.

II. BACKGROUND & ANALYSIS

As was the case with the \$60 million unsecured revolving credit agreement approved in our original Order in this Docket, BHE has had what the Company refers to as a "swingline" of credit for at least 10 years. BHE has used its "swingline" rather than its revolving credit line (the \$60 million line) to more flexibly manage its cash flow on a day-to-day or week-to-week basis. This flexibility is realized through the timeliness of execution as well as the alternate interest rate option discussed in our original Order.

Regarding timeliness, the "swingline" is not shared on a pro rata basis with BankNorth and Bangor Savings like the revolving line and is available only from Fleet Bank. This allows BHE to obtain cash on a daily basis as needed. The revolving line usually has at least a one-day lag period because after BHE notifies Fleet of its intention to make a draft, Fleet must then notify BankNorth and Bangor Savings prior to funding the draft.

Regarding the alternate rate option, under the revolving line, the borrowing rate is typically based on the London Inter-Bank Offering Rate (LIBOR) plus a margin based on BHE's financial condition for periods between 1 and 12 full months. According to BHE, it often finds that it requires cash for periods as short as several days. To satisfy these

requirements, BHE it is able to draw on the “swingline” using the alternate pricing formula (noted in our original Order in this docket) based on the prime rate for the actual days elapsed.

Therefore, if BHE required \$2 million dollars for 5 days, it could use the prime rate, currently 4.00%, for 5 days with interest expense of roughly \$1,100.¹ Although the LIBOR-based rates are currently lower than the prime rate, drafts made at the LIBOR-based rate are not available for less than one month. Using the 1-month LIBOR rate plus a margin of 0.75% (2.0025% at the time of our original Order) and borrowing the same \$2 million, but this time for a maturity of a full month would yield an interest expense of roughly \$3,300 for BHE, an excess of 2,200 over the “swingline” option.² Having the “swingline” option therefore clearly benefits the Company.

The “swingline” amount has increased from \$5 million to the current \$10 million over time and has been unsecured with a one-year term throughout. As such, the “swingline” did not require our approval pursuant to 35-A M.R.S.A. §§ 901 and 902. As noted in its original request in this Docket, BHE wishes to have a greater degree of certainty regarding its short-term borrowing capability, including its “swingline,” and has thus chosen to enter a 3-year agreement with the option of multiple one-year extensions. BHE represents that the resolution approved by its Board of Directors applies to the “swingline” as well as to the revolving line and allows management to commit to two 1-year extensions beyond the original 3-year term without seeking further Board action. Again, because the proposed agreement extends beyond one year, our approval is now required for this credit facility.

When the revolving credit line, approved in our original Order in this Docket, and the “swingline” are due for renewal in the future, we encourage BHE to explicitly distinguish between these two facilities in its initial filing to avoid any confusion. We further direct BHE to notify the Commission in writing if in the future (after 3, 4 or 5 years) the Company chooses to revert to one-year unsecured lines of credit even though the Company would not require our approval to enter such agreements under those terms.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. §901. In approving this securities issue, consistent with normal practice and pursuant to §902(4), the Commission does not imply approval of the Company’s capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

¹ \$2.0 million x 4.00% x (5 days / 365 days) = \$1,096.

² LIBOR uses a 30/360 formula for calculating interest expense, meaning that all months are considered to be 30 days and all years are considered to be 360 days. Therefore, the calculation is: \$2.0 million x 2.0025% x (30 days / 360 days) = \$3,337.

Accordingly, we

O R D E R

1. That Bangor Hydro-Electric Company is hereby authorized to enter into an additional \$10 million Unsecured Revolving Credit Agreement (for a combined total of \$70 million) with Fleet National Bank (or its Successor) for a term of three years with the option of two (2) 1-year extensions for general corporate purposes at a variable interest rate as described in the body of this Supplemental Order.

2. That the Company report to this Commission the exercise of any option to extend the term of this Agreement beyond 3-years along with any amendments to the Agreement. A current attested balance sheet shall be included as part of any such report.

3. That the Company report to this Commission, in writing, its actions pursuant to this order within ninety (90) days of the date of the closing of this transaction.

4. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 7th day of July, 2004.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Diamond
Reishus

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.

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